

Committee on Ways and Means

H.R. 6408, Tax Relief and Health Care Act of 2006

Expansion of Recovery Audit Contracting (RAC)

- The *Medicare Modernization Act of 2003* contained a demonstration program in which recovery audit contractors (RACs) identify and correct improper and excessive payments by Medicare under Parts A and B of the program on a contingent fee basis.
- RACs provide highly specialized software and skills which are not readily available to Medicare or other contractors in order to identify and recover Medicare overpayments. RACs are paid for identifying underpayments and a percentage of overpayments collected (NOT merely identified). These are the right incentives for recovery audit work.
- Within one year, the program has proven to be highly successful. Although it currently operates in only 3 states – California, Florida and New York – CMS recently reported that as of November 16, 2006, it had resulted in the net return of more than \$54 million back to Medicare, with another \$232 million in the queue for collection as inaccurate overpayments.
- In the absence of an arcane budget rule, the Congressional Budget Office (CBO) estimates the RAC will save money, which will be reflected in the final CBO estimate. The Ways and Means Committee estimates the RAC will save as much as \$10 billion over 5 years.
- The Act recognizes the success of the recovery audit program in reducing Medicare overpayments by requiring a nationwide expansion of the program by January 1, 2010.
- Seniors, who pay premiums for their benefits that are tied to the cost of the program, and taxpayers should reap the benefits of correcting inaccurate payments.